

## § 702.108

[65 FR 44966, July 20, 2000]

### **§ 702.108 Risk mitigation credit to reduce risk-based net worth requirement.**

(a) *Application for credit.* Upon application by a credit union which fails to meet its applicable risk-based net worth requirement, and pursuant to guidelines duly adopted by the NCUA Board, the NCUA Board may in its discretion grant a credit to reduce a risk-based net worth requirement under sections 702.106 and 702.107 upon proof of mitigation of:

- (1) Credit risk; or
- (2) Interest rate risk as demonstrated by economic value exposure measures.

## 12 CFR Ch. VII (1–1–02 Edition)

(b) *Application by FISCO.* In the case of a FISCO seeking a risk mitigation credit—

(1) Before an application under paragraph (a) above may be submitted to the NCUA Board, it must be submitted in duplicate to the appropriate State official and the appropriate Regional Director; and

(2) The NCUA Board, when evaluating the application of a FISCO, shall consult and seek to work cooperatively with the appropriate State official, and shall provide prompt notice of its decision to the appropriate State official.

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## National Credit Union Administration

## Pt. 702, Apps.

## APPENDIXES A—F TO SUBPART A OF PART 702

APPENDIX A — EXAMPLE STANDARD COMPONENTS FOR RBNW REQUIREMENT, §702.106  
(EXAMPLE CALCULATION IN BOLD)

<i>Risk portfolio</i>	<i>Dollar balance</i>	<i>Amount as percent of quarter-end total assets</i>	<i>Risk weighting</i>	<i>Amount times risk weighting</i>	<i>Standard component</i>
Quarter-end total assets	200,000,000	100.0000 %			
(a) Long-term real estate loans	60,000,000	30.0000 % =			2.20 %
Threshold amount: 0 to 25%		25.0000 %	.06	1.5000 %	
Excess amount: over 25%		5.0000 %	.14	0.7000 %	
(b) MBLs outstanding	25,000,000	12.5000 % =			0.77 %
Threshold amount: 0 to 12.25%		12.2500 %	.06	0.7350 %	
Excess amount: over 12.25%		0.2500 %	.14	0.0350 %	
(c) Investments	50,000,000 =	25.0000 % =			1.51 %
Weighted-average life:					
0 to 1 year	24,000,000	12.0000 %	.03	0.3600 %	
>1 year to 3 years	15,000,000	7.5000 %	.06	0.4500 %	
>3 years to 10 years	10,000,000	5.0000 %	.12	0.6000 %	
>10 years	1,000,000	0.5000 %	.20	0.1000 %	
(d) Low-risk assets	4,000,000	2.0000 %	.00		0 %
Sum of risk portfolios (a) through (d) above	139,000,000	69.5000 %			
(e) Average-risk assets	61,000,000	30.5000 % <sup>*/</sup>	.06		1.83 %
(f) Loans sold with recourse	40,000,000	20.0000 %	.06		1.20 %
(g) Unused MBL commitments	5,000,000	2.5000 %	.06		0.15 %
(h) Allowance	2,040,000.00 <sup>*/</sup>	1.0200 %	(1.00)		(1.02) %
Sum of standard components: RBNW requirement <sup>*/</sup>					6.64 %

<sup>\*/</sup> The Average-risk assets risk portfolio percent of quarter-end total assets equals 100 percent minus the sum of the percentages in the four risk portfolios above (i.e., Long-term real estate loans, MBLs outstanding, Investments, and Low-risk assets).

<sup>\*/</sup> The Allowance risk portfolio is limited to the equivalent of 1.50 percent of total loans. For an example computation of the permitted dollar balance of Allowance, see worksheet in Appendix B below.

<sup>\*/</sup> A credit union is classified "undercapitalized" if its net worth ratio is less than its applicable RBNW requirement. The dollar equivalent of RBNW requirement may be computed for informational purposes as the RBNW requirement percent of total assets.

APPENDIX B – ALLOWANCE RISK PORTFOLIO DOLLAR BALANCE WORKSHEET  
(EXAMPLE CALCULATION IN BOLD)

<i>Balance sheet account</i>	<i>Dollar balance</i>	<i>Percent of total loans</i>	<i>Range of ALL permitted</i>	<i>Permitted ALL percent of total loans</i>	<i>Permitted dollar balance of Allowance</i>
Allowance for Loan and Lease Losses (ALL)	2,400,000	1.7647%	0 to 1.50%	1.50%	2,040,000
Total loans	136,000,000				

APPENDIX C – EXAMPLE LONG-TERM REAL ESTATE LOANS  
ALTERNATIVE COMPONENT, §702.107(a)  
(EXAMPLE CALCULATION IN BOLD)

<i>Remaining maturity</i>	<i>Dollar balance of Long-term real estate loans by remaining maturity</i>	<i>Percent of total assets by remaining maturity</i>	<i>Alternative risk weighting</i>	<i>Alternative component</i>
> 5 years to 12 years	40,000,000	20.0000 %	.08	1.6000 %
> 12 years to 20 years	15,000,000	7.5000 %	.12	0.9000 %
> 20 years	5,000,000	2.5000 %	.14	0.3500 %
Sum of above equals Alternative component*				2.85 %

\* Substitute for standard component if lower.

APPENDIX D – EXAMPLE OF MEMBER BUSINESS LOANS  
ALTERNATIVE COMPONENT, §702.107(b)  
(EXAMPLE CALCULATION IN BOLD)

<i>Remaining maturity</i>	<i>Dollar balance of MBLs by remaining maturity</i>	<i>Percent of total assets by remaining maturity</i>	<i>Alternative risk weighting</i>	<i>Alternative component</i>
<i>Fixed-rate MBLs</i>				
0 to 3 years	6,000,000	3.0000 %	.06	0.1800 %
> 3 years to 5 years	4,000,000	2.0000 %	.09	0.1800 %
> 5 years to 7 years	2,000,000	1.0000 %	.12	0.1200 %
> 7 years to 12 years	0	0.0000 %	.14	0.0000 %
> 12 years	0	0.0000 %	.16	0.0000 %
<i>Variable-rate MBLs</i>				
0 to 3 years	7,000,000	3.5000 %	.06	0.2100 %
> 3 years to 5 years	4,000,000	2.0000 %	.08	0.1600 %
> 5 years to 7 years	2,000,000	1.0000 %	.10	0.1000 %
> 7 years to 12 years	0	0.0000 %	.12	0.0000 %
>12 years	0	0.0000 %	.14	0.0000 %
Sum of above equals Alternative component*				0.95 %

\* Substitute for standard component if lower.

APPENDIX E -- EXAMPLE OF INVESTMENTS ALTERNATIVE COMPONENT, §702.107(c)  
(EXAMPLE CALCULATION IN BOLD)

<i>Weighted-average life</i>	<i>Dollar balance of investments by weighted-average life</i>	<i>Percent of total assets by weighted-average life</i>	<i>Alternative risk weighting</i>	<i>Alternative component</i>
0 to 1 year	24,000,000	12.0000 %	.03	0.3600 %
> 1 year to 3 years	15,000,000	7.5000 %	.06	0.4500 %
> 3 years to 5 years	8,000,000	4.0000 %	.08	0.3200 %
> 5 years to 7 years	1,000,000	0.5000 %	.12	0.0600 %
> 7 years to 10 years	1,000,000	0.5000 %	.16	0.0800 %
> 10 years	1,000,000	0.5000 %	.20	0.1000 %
Sum of above equals Alternative component*				1.37 %

\* Substitute for standard component if lower.

APPENDIX F -- EXAMPLE RBNW REQUIREMENT USING ALTERNATIVE COMPONENTS  
(EXAMPLE CALCULATION IN BOLD)

<i>Risk portfolio</i>	<i>Standard component</i>	<i>Alternative component</i>	<i>Lower of standard or alternative component</i>
(a) Long-term real estate loans	2.20 %	2.85 %	2.20 %
(b) MBLs outstanding	0.77 %	0.95 %	0.77 %
(c) Investments	1.51 %	1.37 %	1.37 %
			Standard component
(d) Low-risk assets			0 %
(e) Average-risk assets			1.83 %
(f) Loans sold with recourse			1.20 %
(g) Unused MBL commitments			0.15 %
(h) Allowance			(1.02) %
RBNW requirement* Compare to Net Worth Ratio			6.50 %

\* A credit union is "undercapitalized" if its net worth ratio is less than its applicable RBNW requirement.

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### Subpart B—Mandatory and Discretionary Supervisory Actions

#### § 702.201 Prompt corrective action for "adequately capitalized" credit unions

(a) *Earnings transfer.* Beginning the effective date of classification as "adequately capitalized" or lower, a federally-insured credit union must increase its net worth quarterly by an amount equivalent to at least 1/10th percent (0.1%) of its total assets for the current quarter, and must quarterly transfer that amount (or more by choice) from undivided earnings to its regular re-

serve account, until it is "well capitalized."

(b) *Reduction in earnings transfer.* On a case-by-case basis and subject to review and revocation no less frequently than quarterly, the NCUA Board may permit the credit union to quarterly transfer an amount that is less than the equivalent of 1/10th percent (0.1%) of its total assets, to the extent the NCUA Board determines that such lesser amount—

(1) Is necessary to avoid a significant redemption of shares; and

(2) Would further the purpose of this part.